



# SBIC Program Funding Process

## OVERVIEW



# Just-In-Time Funding

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- ◆ Implemented May 1998
- ◆ **Old Process:** Funds drawn down only four times a year with quarterly pooling.
- ◆ **Just-In-Time:** Funds can be drawn down against outstanding commitments on a daily basis to meet investment / cash needs.
- ◆ **Result:** Increased Flexibility
  - Allows closer timing of take down with specific investment or liquidity needs
  - 45 days to draw funds

# Just-In-Time Funding

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# Application for Commitment

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- ◆ First step of funding process: SBIC applies for a Leverage commitment from SBA
- ◆ SBIC requests commitment application package from its assigned financial analyst in Office of SBIC Operations
- ◆ Commitment application periods: May and November
- ◆ New SBICs may submit application for commitment at time of licensing



# Application for Commitment

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- ◆ Commitment application reviewed and recommendation made by Operations analyst and Investment Division Credit Committee
- ◆ Final approval by Associate Administrator for Investment
- ◆ Maximum commitment amount: Two times Regulatory Capital





# Application for Commitment

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- ◆ Commitment expires on Sept. 30 of 4th full Federal fiscal year following issuance (Federal fiscal year is Oct. 1 - Sept. 30)
- ◆ 1% Leverage Fee on committed amount is due:
  - within 30 calendar days or
  - at time of draw (if earlier)



# Application for Draw Against Commitment

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- ◆ Second step of funding process: SBIC applies for a draw against its Leverage commitment
- ◆ SBIC requests draw application instructions from its assigned financial analyst in Office of SBIC Operations; necessary forms can be downloaded from [www.sba.gov/INV](http://www.sba.gov/INV)
- ◆ Draw applications may be submitted on 1st and 3rd Wednesday of each month



# Application for Draw Against Commitment

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- ◆ **Maximum Leverage Request Amount (maximum SBIC can have outstanding)**
  - **Participating Securities: Two times leverageable capital**
  - **Debentures: Up to three times leverageable capital**
  - **Maximum Leverage indexed to CPI; adjusted annually**
  - **Leverage Ceiling for FY04 = \$116,000,000**
  - **New SBICs: Must have SBA compliance exam to draw > 50% of regulatory capital**





# Draw Application Approval

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- ◆ SBA informs SBICs of approval or denial of draw request one week after application deadline (2nd or 4th Wednesday of month)
- ◆ SBIC receives “Notice and Confirmation” document from SBA, indicating approved amount and expiration date
- ◆ Approval expires after 45 days



# SBIC Draws Down Funds

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- ◆ Third step of funding process: SBIC takes down funds
- ◆ SBIC completes and executes “Notice and Confirmation” and faxes it directly to JP Morgan Chase Bank
- ◆ Funds wired next business day
  - 2% leverage fee and 50 basis point underwriters’ fee deducted from proceeds
- ◆ Short-Term Rate = LIBOR + 50 Basis Points



# Debenture/Participating Security Pooled

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- ◆ Instruments in interim funding are pooled semi-annually
  - Participating Securities: February, August
  - Debentures: March, September
- ◆ 10-year “Trust Certificates” sold to institutional investors by underwriters



# Debenture/Participating Security Pooled

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- ◆ **Payment of interim interest:**
  - **Debentures:** SBIC wires short-term interest and SBA Annual Charge to JP Morgan Chase Bank
  - **Participating Securities:** SBA pays short-term Prioritized Payment on SBIC's behalf
- ◆ **Long-Term Rate = 10 year Treasury rate + spread (recent approx 0.85% or 85 bps)**
- ◆ **SBA Annual Charge (Fee) = FY 04: PS=1.454% , DEBS=0.855%. Remains unchanged on draws thru term of SBA commitment.**





# Information on LMI Debentures

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- ◆ “LMI” Debentures are available to SBICs making qualified investments in Low and Moderate Income areas as defined in SBA regulations (§ 107.50)
- ◆ Some information provided above does not apply to LMI Debentures
- ◆ For information, refer to the “LMI Debenture Calculator” found at [www.sba.gov/INV](http://www.sba.gov/INV)